

RURAL WATER DISTRICT NO. 2  
JEFFERSON COUNTY, KANSAS

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Financial Statements  
with  
Independent Auditors' Report  
For the years ended December 31, 2014 and 2013

By

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RURAL WATER DISTRICT NO. 2  
JEFFERSON COUNTY, KANSAS

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Rural Water District No. 2  
Jefferson County, Kansas

We have audited the accompanying financial statements of the business-type activities Rural Water District No. 2, Jefferson County, Kansas as of December 31, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the business-type activities of the Rural Water District, Jefferson County, Kansas, as of December 31, 2014 and 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### Other Matters

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Rural Water District No. 2, Jefferson County, Kansas's basic financial statements as a whole. The schedules of operating expenses are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The schedules of operating expenses are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedules of operating expenses are fairly stated, in all material respects, in relation to the basic financial statements as a whole.



Douthett & Co. CPA, PA  
Certified Public Accountants  
February 9, 2015

RURAL WATER DISTRICT NO. 2  
JEFFERSON COUNTY, KANSAS

STATEMENTS OF NET POSITION  
December 31, 2014 and 2013

|   | <u>2014</u>         | <u>2013</u>         |
|---|---------------------|---------------------|
| ASSETS  |                     |                     |
| CURRENT ASSETS:                                 |                     |                     |
| Cash and cash equivalents                       | \$ 574,006          | \$ 539,897          |
| Accounts receivable                             | <u>12,869</u>       | <u>10,897</u>       |
| Total Current Assets                            | 586,875             | 550,794             |
| NONCURRENT ASSETS:                              |                     |                     |
| Capital assets, net of accumulated depreciation | <u>504,183</u>      | <u>491,774</u>      |
| TOTAL ASSETS                                    | <u>1,091,058</u>    | <u>1,042,568</u>    |
| LIABILITIES                                     |                     |                     |
| CURRENT LIABILITIES:                            |                     |                     |
| Accounts payable                                | 3,634               | -                   |
| Accrued expenses                                | 352                 | 374                 |
| Customer deposits                               | <u>200</u>          | <u>200</u>          |
| TOTAL LIABILITIES                               | 4,186               | 574                 |
| NET POSITION                                    |                     |                     |
| Invested in capital assets, net of related debt | 504,183             | 491,774             |
| Unrestricted                                    | <u>582,689</u>      | <u>550,220</u>      |
| TOTAL NET POSITION                              | <u>\$ 1,086,872</u> | <u>\$ 1,041,994</u> |

See accompanying notes to financial statements

RURAL WATER DISTRICT NO. 2  
JEFFERSON COUNTY, KANSAS

STATEMENTS OF ACTIVITIES  
For the years ended December 31, 2014 and 2013

|   | 2014                | 2013                |
|---|---------------------|---------------------|
| OPERATING REVENUES:                               |                     |                     |
| Water sales                                       | \$ 176,584          | \$ 163,912          |
| New meters  | 5,000               | 10,000              |
| TOTAL OPERATING REVENUES                          | 181,584             | 173,912             |
| OPERATING EXPENSES                                | 108,749             | 111,626             |
| INCREASE FROM OPERATIONS                          | 72,835              | 62,286              |
| NONOPERATING REVENUES (EXPENSES)                  |                     |                     |
| Farm income                                       | 9,522               | 12,495              |
| Interest income                                   | 910                 | 1,071               |
| Engineering new meters                            | 125                 | 250                 |
| Other income                                      | 193                 | 1,552               |
| Depreciation expense                              | (34,995)            | (35,820)            |
| Farm expense                                      | (3,712)             | (4,715)             |
| DECREASE FROM NONOPERATING<br>REVENUES (EXPENSES) | (27,957)            | (25,167)            |
| INCREASE IN UNRESTRICTED ASSETS                   | 44,878              | 37,119              |
| NET ASSETS, Beginning of Year                     | 1,041,994           | 1,004,875           |
| NET ASSETS, End of Year                           | <u>\$ 1,086,872</u> | <u>\$ 1,041,994</u> |

See accompanying notes to financial statements

RURAL WATER DISTRICT NO. 2  
JEFFERSON COUNTY, KANSAS

STATEMENTS OF CASH FLOWS  
For the years ended December 31, 2014 and 2013

|   | 2014       | 2013       |
|---|------------|------------|
| Cash Flows from Operating Activities:                     |            |            |
| Cash received from customers                              | \$ 179,613 | \$ 177,060 |
| Cash payments to suppliers for goods and services         | (66,929)   | (75,710)   |
| Cash payments to employees for services                   | (41,921)   | (40,920)   |
| Other revenues  | 10,749     | 15,367     |
| Net Cash Provided by Operating Activities                 | 81,512     | 75,797     |
| Cash Flows from Capital and Related Financing Activities: |            |            |
| Purchase of capital assets                                | (47,403)   | (4,000)    |
| Net Change in Cash  | 34,109     | 71,797     |
| Cash, beginning of year                                   | 539,897    | 468,100    |
| Cash, end of year   | \$ 574,006 | \$ 539,897 |

Reconciliation of Operating Income to Net Cash Provided by Operating Activities:

|   |           |           |
|---|-----------|-----------|
| Change in Net Assets                                  | \$ 44,878 | \$ 37,119 |
| Adjustments to Reconcile Changes in Net Assets to Net |           |           |
| Cash Provided by Operating Activities:                |           |           |
| Depreciation  | 34,995    | 35,820    |
| Change in assets and liabilities:                     |           |           |
| (Increase) decrease in accounts receivable            | (1,971)   | 3,146     |
| Increase (decrease) in accounts payable               | 3,611     | (288)     |
| Net Cash Provided by Operating Activities             | \$ 81,513 | \$ 75,797 |

See accompanying notes to financial statements

RURAL WATER DISTRICT NO. 2  
JEFFERSON COUNTY, KANSAS

NOTES TO FINANCIAL STATEMENTS  
For the years ended December 31, 2014 and 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Rural Water District No. 2, Jefferson County, Kansas (the District) was organized in 1965 as a quasi-municipal corporation established under and pursuant to the provisions of K.S.A. 82a-612 et seq. of the statutory law of Kansas. The District was established for the purpose of constructing and operating a water supply distribution system to the benefit units within Rural Water District No. 2.

The financial statements of Rural Water District No. 2, Jefferson County, Kansas are prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standard Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable) that do not conflict with or contradict GASB pronouncements. The District has the option to apply FASB pronouncements issued after that date and has elected to apply those when applicable. The more significant accounting policies established in GAAP and used by the District are discussed below.

In June, 1999 the Governmental Accounting Standards Board (GASB) unanimously approved Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*. Certain of the significant changes in the Statement include the following:

- For the first time, GASB requires the financial statements to include:
  - A Management’s Discussion and Analysis (MD&A) section providing an analysis of the District’s overall financial position and results of operations. Management has elected to omit the Management Discussion and Analysis.
  - Financial statements are prepared using full accrual accounting for all of the District’s activities.

Financial Reporting Entity

The District’s basic financial statements include the accounts of all District operations. The District is a separate legal entity created by the Kansas Legislature as described above. As a result, the District is a special-purpose government engaged in a single governmental program.

RURAL WATER DISTRICT NO. 2  
JEFFERSON COUNTY, KANSAS

NOTES TO FINANCIAL STATEMENTS  
For the years ended December 31, 2014 and 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation

The statement of net assets reports information on all of the activities of the District. The statement of activities includes revenues and expenses related to the primary, continuing operations of the District. Principal operating revenues are charges to customers for sales or services. Principal operating expenses are the costs of providing goods or services and include administrative expenses.

Measurement Focus/Basis of Accounting

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

The financial statements are reported using the economic resources measurement and the accrual basis of accounting. The economic resources measurement focus means all assets and liabilities are included on the Statement of Net Assets and the operating statement presents increases (revenues) and decreases (expenses) in net total assets. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized at the time the liability is incurred.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Cash and Cash Equivalents

Cash includes all monies in the bank that are not restricted by debt covenants, which are classified as noncurrent assets, and highly liquid investments with original maturity dates of less than three months. The carrying value of cash approximates fair value because of the short maturities of those financial instruments. The District had no noncash financing transactions nor made cash payments for income taxes.

RURAL WATER DISTRICT NO. 2  
JEFFERSON COUNTY, KANSAS

NOTES TO FINANCIAL STATEMENTS  
For the years ended December 31, 2014 and 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Assets

All capital assets are valued at historical cost. Depreciation is based upon the estimated useful lives of the assets, using the straight-line method. Expenditures for major renewals and betterments that extend the lives of property and equipment are capitalized. When assets are retired or otherwise disposed of, the assets and related accumulated depreciation are reduced and any resulting gain or loss is recognized in income for the period. The cost of maintenance and repairs is expensed as incurred.

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any borrowings used for the acquisition. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation or through external restrictions. The District had no restricted net assets at December 31, 2014 and 2013.

Income Taxes

The District is a quasi-municipal governmental unit that is exempt from federal and state income tax.

NOTE 2 – CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of the following:

|              | 2014              | 2013              |
|--------------|-------------------|-------------------|
| Petty cash   | \$ 200            | \$ 200            |
| Checking     | 209,506           | 176,306           |
| Money Market | 364,300           | 363,391           |
| Total Cash   | <u>\$ 574,006</u> | <u>\$ 539,897</u> |

RURAL WATER DISTRICT NO. 2  
JEFFERSON COUNTY, KANSAS

NOTES TO FINANCIAL STATEMENTS  
For the years ended December 31, 2014 and 2013

NOTE 3 – ACCOUNTS RECEIVABLE

Collections of accounts receivable are generally current. At December 31, 2014 and 2013, there were minimal amounts of uncollected accounts due over ninety days. Uncollectible accounts are written off in the period they become worthless.

NOTE 4 – CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2014 was as follows:

|                                       | Balance<br>January 1 | Additions/<br>Completions | Retirements/<br>Adjustments | Balance<br>December 31 |
|---------------------------------------|----------------------|---------------------------|-----------------------------|------------------------|
| Capital assets not being depreciated: |                      |                           |                             |                        |
| Land                                  | \$ 52,598            |                           |                             | \$ 52,598              |
| Capital assets being depreciated:     |                      |                           |                             |                        |
| Water Distribution System             | 1,318,647            | 47,404                    |                             | 1,366,051              |
| Less accumulated depreciation         | (879,471)            | (34,995)                  |                             | (914,466)              |
| Net Being Depreciated                 | 439,176              | 12,409                    | -                           | 451,585                |
| Total Capital Assets                  | <u>\$ 491,774</u>    | <u>12,409</u>             | <u>-</u>                    | <u>\$ 504,183</u>      |

Capital asset activity for the year ended December 31, 2013 was as follows:

|                                       | Balance<br>January 1 | Additions/<br>Completions | Retirements/<br>Adjustments | Balance<br>December 31 |
|---------------------------------------|----------------------|---------------------------|-----------------------------|------------------------|
| Capital assets not being depreciated: |                      |                           |                             |                        |
| Land                                  | \$ 52,598            |                           |                             | \$ 52,598              |
| Capital assets being depreciated:     |                      |                           |                             |                        |
| Water Distribution System             | 1,314,647            | 4,000                     |                             | 1,318,647              |
| Less accumulated depreciation         | (843,652)            | (35,819)                  |                             | (879,471)              |
| Net Being Depreciated                 | 470,995              | (31,819)                  | -                           | 439,176                |
| Total Capital Assets                  | <u>\$ 523,593</u>    | <u>(31,819)</u>           | <u>-</u>                    | <u>\$ 491,774</u>      |

Depreciation expense for years ended December 31, 2014 and 2013 was \$34,995 and \$35,820, respectively.

RURAL WATER DISTRICT NO. 2  
JEFFERSON COUNTY, KANSAS

NOTES TO FINANCIAL STATEMENTS  
For the years ended December 31, 2014 and 2013

NOTE 5 – DEPOSITS AND INVESTMENTS

The District has excess cash invested in a money market account at a local bank at December 31, 2014 and 2013.

K.S.A. 9-1401 establishes the depositories which may be used by the District. The statute requires banks eligible to hold the District's funds have a main or branch bank in the county in which the District is located, or in an adjoining county if such institution has been designated as an official depository, and the banks provide an acceptable rate of return on funds. In addition, K.S.A. 9-1402 requires the banks to pledge securities for deposits in excess of FDIC coverage. The District has no other policies that would further limit interest rate risk.

K.S.A. 12-1675 limits the District's investment of idle funds to time deposits, open accounts, and certificates of deposit with allowable financial institutions; U.S. government securities; temporary notes; no-fund warrants; repurchase agreements; and the Kansas Municipal Investment Pool. The District has no investment policy that would further limit its investment choices.

*Concentration of credit risk.* State statutes place no limit on the amount the District may invest in any one issuer as long as the investments are adequately secured under K.S.A. 9-1402 and 9-1405.

*Custodial credit risk – deposits.* Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to the District. State statutes require the District's deposits in financial institutions to be entirely covered by federal depository insurance or by collateral held under a joint custody receipt issued by a bank within the State of Kansas, the Federal Reserve Bank of Kansas City, or the Federal Home Loan Bank of Topeka, except during designated "peak periods" when required coverage is 50%.

The bank carrying amounts of the District's deposits was \$574,006 and \$539,897 at December 31, 2014 and 2013, respectively. At December 31, 2014 and 2013, \$250,000 of the bank balance was covered by FDIC insurance. At December 31, 2014 and 2013, \$333,898 and \$256,869, respectively, was covered by pledges securities held under joint custody receipts issued by a third-party bank in the District's name. The third-party bank holding the pledged securities is independent of the pledging bank. The pledged securities are held under a tri-party custodial agreement signed by all three parties: the District, the pledging bank, and the independent third-party bank holding the pledged securities. At December 31, 2014 and 2013, respectively, all deposits were insured.

RURAL WATER DISTRICT NO. 2  
JEFFERSON COUNTY, KANSAS

NOTES TO FINANCIAL STATEMENTS  
For the years ended December 31, 2014 and 2013

NOTE 6 – RISK MANAGEMENT

The District is exposed to various risks of loss related to torts: theft of, damage to, and destruction of assets; errors and omissions; injuries to employees. The District purchases insurance to provide coverage for these risks. There were no significant reductions in insurance coverage from the prior year.

NOTE 10 – SUBSEQUENT EVENTS

The Organization adopted FASB ASC Topic 855, *Subsequent Events*. ASC 855 establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. Specifically, it sets forth the period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements, the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements, and the disclosures that an entity should make about events or transactions that occurred after the balance sheet date. The adoption of ASC 855 had no impact on the Organization's financial statements.

In accordance with ASC 855, the Organization evaluated subsequent events through February 9, 2015, the date these financial statements were available to be issued. There were no material subsequent events that required recognition or additional disclosure in these financial statements.

SUPPLEMENTAL INFORMATION

RURAL WATER DISTRICT NO. 2  
JEFFERSON COUNTY, KANSAS

SCHEDULES OF OPERATING EXPENSES  
For the years ended December 31, 2014 and 2013

|                          | <u>2014</u>       | <u>2013</u>       |
|--------------------------|-------------------|-------------------|
| Asset improvement        | \$ 1,200          | \$ 10,067         |
| Audit expense            | 4,325             | 4,915             |
| Chemicals                | 435               | 272               |
| Ditching                 | 14,825            | 13,667            |
| Dues and subscriptions   | 275               | 545               |
| Engineering fee          | -                 | 250               |
| Finders fee              | 125               | 100               |
| Insurance                | 5,865             | 5,400             |
| Legal                    | 250               | 532               |
| Miscellaneous            | 586               | 654               |
| Mowing services          | 1,520             | 880               |
| Office & postage expense | 4,785             | 1,616             |
| Over-payment             | -                 | 3                 |
| Rental/stoarge expense   | -                 | 50                |
| Returned check           | 84                | 68                |
| Salaries                 | 41,921            | 40,920            |
| Supplies                 | 7,780             | 9,983             |
| Payroll taxes            | 3,254             | 3,089             |
| Other taxes              | 830               | 762               |
| Water protection tax     | 1,126             | 1,195             |
| Testing expenses         | 1,097             | 903               |
| Travel                   | 175               | 200               |
| Utilities                | <u>18,291</u>     | <u>15,555</u>     |
| Total Expenses           | <u>\$ 108,749</u> | <u>\$ 111,626</u> |

See accompanying notes to financial statements